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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 280 **September, 1983**

Business in Virginia August 1983, Data

(This issue of the Virginia Business Report was prepared by Chessie Professor of Business Administration Marvin M. Stanley in the absence of Bureau Director Leland Traywick, who is ill.)

The Report uses data collected from 17 Virginia cities and Standard Metropolitan Statistical Areas. Indexes for nine areas of business activity are prepared which permit comparison of that city/SMSA business activity with the same month in 1977. For August 1983, in comparison with August 1977, Alexandria had the highest city indexed growth over the six-year period, with an increase in business activity of 108.5 percent. The remaining ranked as follows in business activity increase: Fredericksburg + 64.9%, Charlottesville + 63.8%, Lynchburg + 55.8%, Richmond + 50.2%, Harrisonburg + 45.8%, Winchester + 45.5%, Norfolk-Portsmouth + 41.5%, Newport News-Hampton + 40.5%, Williamsburg + 38.1%, Roanoke + 35.7%, Franklin + 31.1%, Bristol + 29.7%, Cape Charles-Exmore + 28.5%, Danville + 20.6%, Staunton + 10.7%, and Petersburg, which declined 7.9%.

The above rankings are based upon a weighted arithmetic mean of all business and economic sample data components except Building Permits, which is excluded because of its highly erratic nature. As such, the index contains both dollar values, such as Retail Sales, and quantities consumed, such as Electricity Consumed in kilowatt hours. Since measurements are the same for all city/SMSA areas, ranking of indexed growth is possible.

For the state as a whole, since August of 1977 Bank Debits have grown 282%, Building Permits are up by 114.8%, Electricity Consumed increased 44.4%, Newspaper Lineage up by 7.5%, New Car Registrations with a decline of 12.6%, Non-Agricultural Employment grew by 12%, Water Consumption up by 10.5%, and Retail Sales grew by 29.5%.

Comparing August 1983 with August a year ago, there are a number of encouraging signs in the current economic improvement. Bank Debits are up by 26.9 percent over August 1982, Building Permits (though really a small portion of total economic activity) are up by 99.8%, Retail Sales are up by 10% over August a year ago, and New Car Registrations are up by 15 percent. (Though there has been recent improvement in New Car Registrations, this category is still less than it was in 1977.)

There is money in the bank and people are spending some of it. This is crucially important since personal consumption expenditures comprise about two-thirds of the way in which gross state or gross national product activity is measured. And, basic to the consumer's willingness to part with hard-earned discretionary dollars, over and above prior debt commitments or immediate necessities, is his or her confidence about his or her personal and immediate economic future. One element in the improving business climate well could be pent-up demand; as an example New Car Registrations, for the nation's fleet of private automobiles has aged steadily in recent years as purchases were deferred in favor of new tires or needed maintenance.

It all comes back in the end to consumer psychology, and right now that seems to be cautiously favorable. A period of explosive business growth would bring with it all the byproduct economic ills inherent therein. No thoughtful business manager wants a return to the 18 percent inflation rates of 1980. The present modest but seemingly steady upturn in the economic cycle may be just what the doctor ordered.

Please permit a personal closing note. As a guest editor, I know that Lee Traywick is a tough act to follow. Get well Lee. MMS

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change August, 1983 from August, 1982

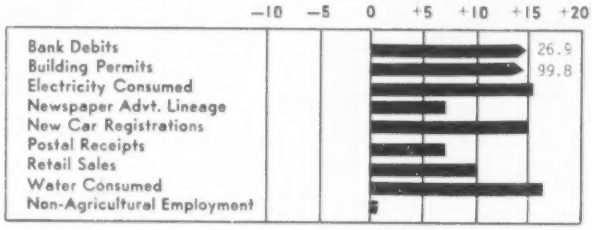
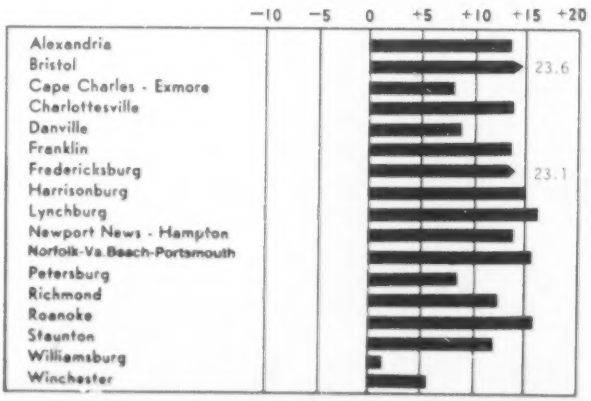


Chart II

City Indices

Percentage Change August, 1983 from August, 1982



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I August 1983

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	NON AGRICULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		382.0	214.8	144.4	107.5	87.4	112.0	110.5	129.5	166.5
Alexandria	208.5	749.7	593.8	157.9	N.A.	100.2	125.3	106.3	142.9	N.A.
Bristol	129.7	303.7	213.1	88.2	88.8	58.5	N.A.	96.4	120.1	171.6
Cape Charles - Exmore	128.5	184.1	265.0	133.7	N.A.	68.1	N.A.	N.A.	122.1	147.1
Charlottesville	163.8	260.7	229.9	123.9	N.A.	106.0	N.A.	126.7	172.0	177.0
Danville	120.6	N.A.	226.2	117.3	126.0	56.1	N.A.	88.3	139.4	158.7
Franklin	131.1	N.A.	26.2	126.9	103.9	124.4	N.A.	131.3	131.9	166.7
Fredericksburg	164.9	232.3	259.5	N.A.	125.7	125.2	N.A.	76.1	186.0	201.6
Harrisonburg	145.8	211.9	436.5	N.A.	113.5	68.7	N.A.	135.0	144.1	204.7
Lynchburg	155.8	185.6	216.6	119.6	N.A.	82.2	N.A.	126.6	116.3	383.7
Newport News - Hampton	140.5	246.9	224.6	133.5	104.6	73.8	123.1	144.9	145.8	N.A.
Norfolk - Va. Beach - Portsmouth	141.5	216.5	220.0	160.6	109.5	83.5	116.6	87.4	166.5	N.A.
Petersburg	92.1	76.9	45.0	N.A.	66.9	73.7	N.A.	112.6	92.2	130.4
Richmond	150.2	451.4	N.A.	154.4	100.6	79.0	111.7	127.6	106.7	157.3
Roanoke	135.7	282.1	71.5	116.4	130.5	68.7	107.0	113.2	118.7	182.6
Staunton	110.7	124.7	92.3	N.A.	81.4	69.0	N.A.	N.A.	112.9	160.8
Williamsburg	138.1	102.0	101.0	167.9	N.A.	174.6	N.A.	108.8	119.4	193.0
Winchester	145.5	335.2	162.5	115.0	114.7	93.3	N.A.	127.7	119.8	164.6

TABLE II August 1983

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	NON AGRICULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	July RETAIL SALES ‡
The State		26.9	99.8	15.4	7.0	15.0	0.9	16.3	10.0	20.9
Alexandria	13.2	20.8	574.0	15.7	N.A.	16.2	2.9	8.8	13.8	24.1
Bristol	23.6	38.0	58.1	5.1	-10.7	41.0	N.A.	45.2	23.3	16.5
Cape Charles - Exmore	7.6	25.0	107.7	8.4	N.A.	19.1	N.A.	N.A.	-2.4	3.7
Charlottesville	13.3	41.6	116.5	6.8	N.A.	12.3	N.A.	7.1	8.5	8.9
Danville	8.5	N.A.	311.3	14.8	14.0	52.4	N.A.	0.3	-7.3	13.4
Franklin	13.2	N.A.	45.5	11.4	1.1	27.6	N.A.	4.9	15.8	20.0
Fredericksburg	23.1	43.2	33.6	N.A.	16.0	42.9	N.A.	-2.8	20.7	33.8
Harrisonburg	15.0	28.9	455.3	N.A.	15.3	-2.4	N.A.	26.5	12.2	68.6
Lynchburg	15.9	13.7	-19.3	9.4	N.A.	42.5	N.A.	29.4	5.4	12.9
Newport News - Hampton	14.1	22.3	74.9	12.4	10.1	8.5	3.9	26.4	14.5	18.3
Norfolk - Va. Beach - Portsmouth	15.4	44.3	96.1	11.0	10.0	22.8	3.1	9.0	12.7	23.2
Petersburg	8.5	-23.8	46.9	N.A.	-9.3	55.5	N.A.	27.4	3.3	21.2
Richmond	12.2	20.0	-47.7	23.8	5.9	-11.5	-0.1	25.8	15.4	32.6
Roanoke	15.5	33.7	1132.3	26.9	14.5	51.7	2.6	9.1	0.3	23.1
Staunton	11.6	24.3	-42.5	N.A.	-5.1	20.7	N.A.	N.A.	9.9	5.9
Williamsburg	1.1	-31.1	55.8	4.5	N.A.	17.9	N.A.	7.7	2.8	26.3
Winchester	5.1	28.3	139.0	7.9	-20.1	27.1	N.A.	17.8	-6.8	30.1

TABLE III

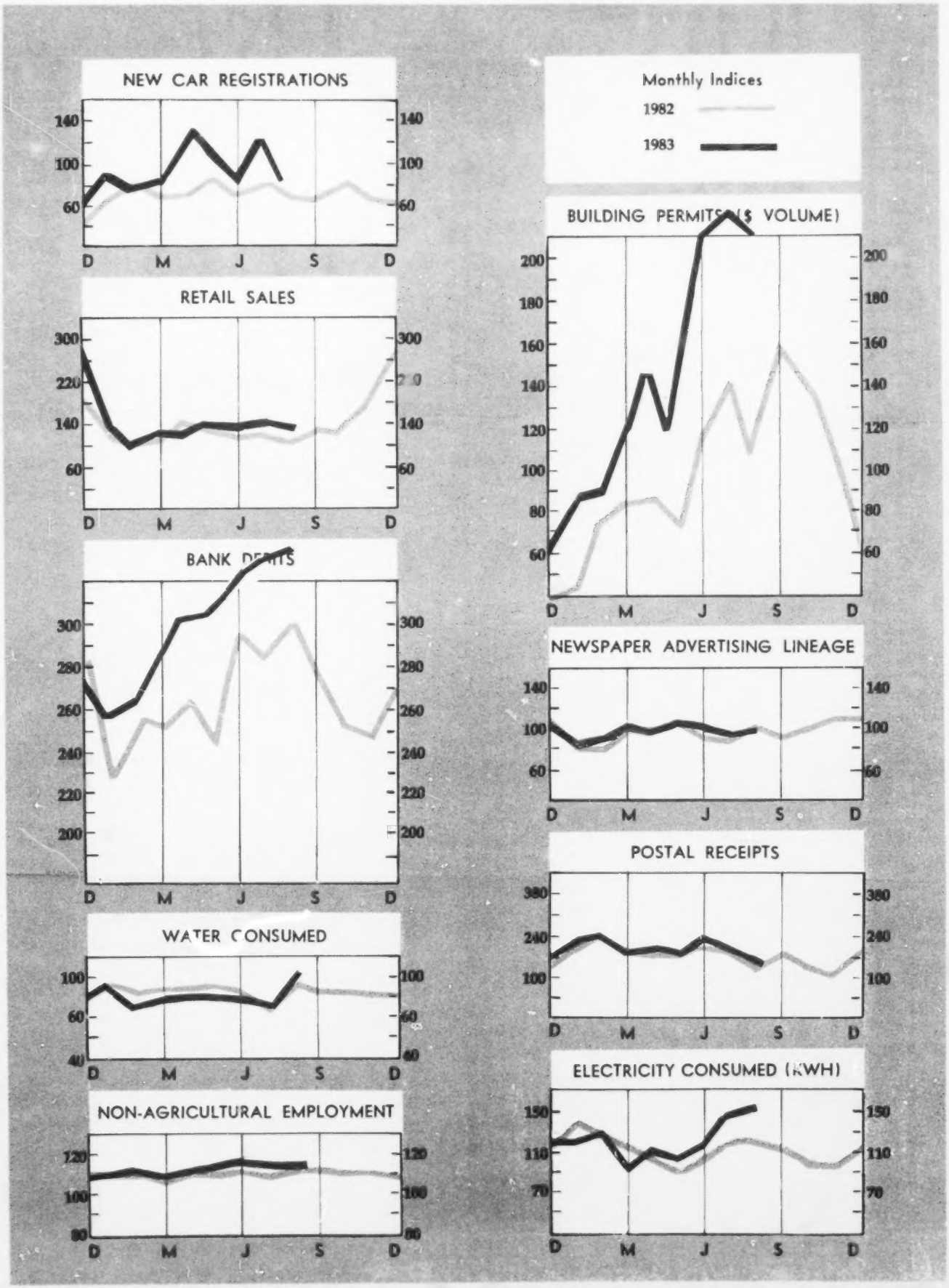
Percentage Change January - August from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	NON AGRICULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Jan-July RETAIL SALES
The State		17.8	59.7	3.1	6.8	23.3	0.6	-0.5	11.3	10.7
Alexandria	10.1	-4.2	201.3	2.0	N.A.	25.0	3.5	4.1	16.7	13.3
Bristol	15.4	27.8	-13.2	-1.8	-2.7	38.7	N.A.	17.3	14.7	1.1
Cape Charles - Exmore	7.5	15.7	164.8	0.5	N.A.	31.0	N.A.	N.A.	-0.8	8.9
Charlottesville	12.5	23.6	10.4	-0.2	N.A.	34.2	N.A.	-0.1	10.0	6.6
Danville	4.8	N.A.	-4.7	6.0	13.2	50.1	N.A.	-7.2	-9.6	5.3
Franklin	0.4	N.A.	33.4	2.7	-0.1	10.3	N.A.	-5.0	-1.7	5.1
Fredericksburg	13.6	37.2	106.7	N.A.	10.3	26.9	N.A.	-29.2	16.6	14.1
Harrisonburg	9.9	24.0	173.7	N.A.	7.4	21.8	N.A.	4.3	3.9	45.0
Lynchburg	14.9	37.5	35.7	0.8	N.A.	41.3	N.A.	-2.1	9.0	3.8
Newport News - Hampton	10.5	20.6	13.7	1.7	0.0	19.9	3.9	3.3	14.5	9.2
Norfolk - Va. Beach - Portsmouth	13.2	37.0	61.2	1.7	8.9	25.0	2.2	-2.2	15.3	12.2
Petersburg	15.3	33.8	105.5	N.A.	7.1	42.4	N.A.	-0.5	8.0	11.2
Richmond	9.5	13.5	-1.5	9.4	2.2	20.0	0.0	-0.9	13.7	12.7
Roanoke	6.8	23.7	130.0	2.8	11.0	-0.9	1.3	-0.6	10.5	7.7
Staunton	8.6	23.8	25.8	N.A.	3.5	19.4	N.A.	N.A.	1.6	4.2
Williamsburg	-8.1	-23.6	144.1	-1.2	N.A.	35.6	N.A.	-6.6	3.4	12.6
Winchester	9.0	21.8	93.3	2.3	18.5	31.8	N.A.	7.5	-3.4	17.4

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.


NEW CAR REGISTRATIONS
140
100
60
D M J S D
RETAIL SALES
300
220
140
60
BANK DEBITS
300
280
260
240
220
200
WATER CONSUMED
100
60
40
NON-AGRICULTURAL EMPLOYMENT
120
100
80
Monthly Indices
1982
1983
BUILDING PERMITS ($ VOLUME)
200
180
160
140
120
100
80
60
NEWSPAPER ADVERTISING LINEAGE
POSTAL RECEIPTS
380
240
100
ELECTRICITY CONSUMED (KWH)
150
110
70

The Deregulated Airline Industry

(This article was written by Chessie Professor of Business Administration Marvin M. Stanley, who teaches Transportation Management and Business Policy in The Business School's MBA degree program.)

In 1982 some 293 million passengers purchased tickets for nearly 5 million departures aboard the 2,830 U.S. scheduled airlines' aircraft. In 1982 total operating revenue was $36.4 billion; unfortunately total operating expense was $37.1 billion, for an operating loss of $733 million. When fixed costs were included the airlines lost $916 million last year.

Unfortunately, this was the third straight loss year in a row, with the total industry losing $1.4 billion 1980 through 1982, and in the first half of 1983 the industry operating loss was $544 million.

This is an industry in transition from governmental regulation to the freely-competitive marketplace. There has been one corporate bankruptcy and historic company names disappearing through mergers. It is difficult to say whether the airlines' recent and current financial plight is the result of progressive governmental deregulation which began in late 1978 or stems from the recent cyclical downturn in the nation's economy.

The airlines were the first common carrier mode to be deregulated; some would call it reregulated. Complicated legislation providing for a multi-year transition period concentrated upon four points: pricing freedom within certain initial boundaries, route expansion, route abandonments, and relaxed entry for new airlines.

There have been many structural changes in the industry. Braniff became bankrupt, the result of headlong overexpansion outrunning cash flow. Pan American acquired National. Southern and North Central merged to become Republic, later acquiring Hughes Air West. Allegheny became USAir, retaining the name Allegheny for an extensive group of affiliated commuter carriers. New names emerged: New York Air and People Express drew media attention with cut-rate fares along high-density traffic routes. Formerly intra-state Southwest in Texas, Pacific Southwest in California, and Air Florida expanded and became inter-state airlines. Many new names, little known outside of their immediate regions, appeared. In 1978 the industry's Air Transport Association had 29 airlines in their data summary; the 1982 data included 93 airlines, of which 16 had been newly-certificated by the Civil Aeronautics Board in that year.

The airlines, initially placed under governmental regulation of the Civil Aeronautics Board in 1938, really embarked upon significant expansion following the tremendous strides in aviation technology during and after World War II. In 1951 the U.S. scheduled airlines carried 25 million domestic passengers; 30 years later in 1980 they carried 267 million, a compounded average annual growth rate of 8.3 percent at a time when real Gross National Product was growing at an annual rate of 3.2 percent per year. The airlines participated in and certainly contributed to the nation's growth. In 1982 airlines provided 86.3 percent of all intercity passenger travel aboard public service common carriers in the nation.

Nearly five years after deregulation legislation it is possible to obtain some indication of how the airlines have fared in the cloudy and sometimes unfriendly skies of a freely competitive marketplace. Air transportation is a perishable, derived demand service. Movement of an airline seat between, say, New York and Los Angeles cannot be stockpiled or inventoried. Once the aircraft takes off the opportunity to earn income on an empty seat is gone forever. This has led to considerable discount pricing on high-density, competitive routes where all airlines are scrambling to fill such seats. Price wars, except during tourist seasons, for a while were commonplace, but not on routes where there was limited competition or where one airline held a service monopoly. On such routes prices tended to rise. The result has been much airline jockeying for market positioning on routes, and considerable cross subsidization between markets.

Th heavy competition and price discounting on many routes to a considerable degree has contributed to the three and a half year record of operating losses. In 1982 discount fare traffic accounted for 78 percent of total revenue passenger miles, and the average discount off of full fare was 46 percent. The airlines have got to stop giving away air travel.

An instinctive reaction well could be that the airlines should increase passenger fares. But, it is not that simple. Air travel is quite sensitive to economic uncertainty. Business travel declines and personal travel may seem too expensive. With the airlines depending upon passenger travel for 84 percent of their revenue any downturn in demand can be dangerous. Moreover, the airlines' passenger travel demand growth in recent years gives some evidence of a maturing marketplace, which raises serious questions about excess capacity.

So where does the U.S. airline industry stand in September 1983? Traffic growth is recurring with the economic upturn, though at a slower rate than in the past. Costs seem to be stabilizing, particularly fuel; and labor costs, though increasing, are going up at a lower rate. Price competition is still strong, resulting in inadequate yield per revenue passenger mile. There is much experimenting with fares and routes.

Eastern had a $12 million second quarter loss; Trans World had a $14 million second quarter loss. Others did better: American with a $48 million profit, USAir with a $38 million profit, and United with a $37 million profit.

Airline managements appear to be adopting a justifiable new and different viewpoint re their operations, concentrating more on controlling costs and generating revenue than on traffic growth. Improvement in the nation's economy undoubtedly is seen as making higher fares for air travel possible without incurring disproportionate reductions in seats sold. The airlines are groping toward a more stable plateau.

The basic problem, however, is too many airlines with too much excess capacity. The apparently resurgent U.S. economy may obscure the problem for a while, in fact may delay the terminal period of the excess capacity illnes for as much as two years. There will be failures in 1985 or 1986, perhaps one or two before then. The remaining companies, however, will be stronger, competitively lean and better attuned to the often conflicting demands of cost control, market demand, management growth aspirations, and profitability. Tough times for the airlines are not yet over, but they already have flown through most of the turbulence of transition from regulation to homogeneous oligopoly in a free marketplace. MMS

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